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RUEHUB/USINT HAVANA 1036
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RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0886
RUCPDO/DEPT OF COMMERCE
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RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 001434

SIPDIS

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ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR DTOMLINSON AND JSHRIER

E.O. 12958: DECL: 01/12/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: OIL TRADING: SKELETONS IN PDVSA'S CLOSET

REF: A. 2006 CARACAS 3224
[1](#)B. CARACAS 183 AND PREVIOUS

Classified By: Acting Economic Counselor Shawn E. Flatt for Reason 1.4
(D)

[1](#)1. (C) SUMMARY: A senior PDVSA executive who was forced into retirement in March 2007 stated PDVSA exports 38 million barrels of oil per month excluding crude from the former Faja strategic associations. President Chavez ordered PDVSA to stop exporting to the United States before the November elections but was later talked out of it but he remains intent on carrying this out. PDVSA is losing 7 billion USD per year due to its need to import components for gasoline. PDVSA is also losing 3 billion USD per year due to Cuban state oil company CUPET's failure to pay for crude shipments and an undetermined amount from fuel oil shipments to Argentina. Shipments of fuel oil to China were suspended due to the steep discount the Chinese demanded. A PDVSA director told the executive PDVSA would be "dead" if the price of WTI dropped to 37 USD. END SUMMARY

THEY DON'T KNOW WHAT IS GOING ON

[1](#)2. (C) Petroleum Attache met on July 17 with a former senior PDVSA executive who was forced into retirement in March 2007 to discuss the inner workings of PDVSA. The executive's last position with the company was in trading. According to the executive, PDVSA has consistently exported 38 million barrels of crude oil per month. This figure does not include crude exports from the former Faja strategic associations. Of this amount, 900 to 925,000 barrels per day goes to Citgo. The supply contract with Citgo has a yearly quota and daily figures fluctuate. For example, Citgo does not want to receive any crude from PDVSA after the second week in

December due to the fact that it wants to run down its stocks for tax purposes.

13. (C) According to the executive, PDVSA is selling most of its production on the spot market "at distress". In other words, the market knows that PDVSA has to sell its crude and does not have the luxury of shopping around for the best offer. The executive stated PDVSA was selling its crude at a "distress of six" (a discount of six USD per barrel). He believed traders from major IOCs were colluding to lower the price on PDVSA's crude. He stated the traders were able to buy at a discount because they "were helping" PDVSA to place its production. The executive stated PDVSA does not have any trading strategy. When Petatt noted contacts have stated PDVSA traders are young and inexperienced, the executive stated PDVSA senior management consciously decided that it did not want traders who knew what they were doing. One reason for the decision was that senior PDVSA management did not want traders who could figure out how senior management was stealing from the company. In addition, the managers did not want traders who had the financial acumen to steal from PDVSA. The executive stated an experienced trader stole 20 million USD from PDVSA and deposited the funds in Panama.

14. (C) The executive also claimed during his tenure in trading that he worked directly for President Chavez. He was told on a number of actions to carry out trades that originated with President Chavez. According to the executive, President Chavez ordered PDVSA to stop exporting crude to the United States in the run-up to elections in November. The order was never carried out because someone convinced Chavez that the idea was counterproductive for

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Venezuela. The executive opined that now that Chavez has the idea in his head he will eventually try to carry it out.

15. (C) When asked if contingency plans were drafted for a cutoff of Venezuelan crude supplied to the States, the executive laughed derisively and replied no plans were in place and that the senior management of PDVSA had no idea what it was doing. He repeatedly stated senior PDVSA management was not sure what PDVSA's actual production numbers were. He also claimed that they were unaware of how much money PDVSA was actually earning. He later amended his comments and said that Eudomario Carruyo, a PDVSA director and the company's de facto CFO, knew exactly how much money PDVSA was generating and where the funds were flowing.

GASOLINE COMPONENTS AND LUBRICANTS

16. (C) The executive stated PDVSA is currently importing 125,000 barrels of gasoline components per day due to problems with its own refineries. At current market prices, the executive estimated that the imports were costing PDVSA approximately 4 billion USD per year. (COMMENT: The executive's statements concerning the importation of gasoline components gibes with what we reported in Reftel A. END COMMENT)

17. (C) He also stated PDVSA has been importing base lubricants due to an inability to secure the crudes it needed to manufacture lubricants at its own refineries. The executive stated PDVSA used to import Basra crude to manufacture lubricants. When senior management decided Basra crude was too expensive, it ordered the executive to secure a mix of Maya and Isthmus crudes. The executive complained that use of the mix did not make sense commercially but was over-ruled by his superiors. Unfortunately for PDVSA, President Chavez then had a falling out with Mexican President Vicente Fox and ordered PDVSA to quit purchasing oil from the Mexicans. As a result, PDVSA was forced to import base lubricants rather than manufacture them. The executive did not give any figures on how much PDVSA is losing due to the importation of lubricants.

CUBA AND ARGENTINA

¶18. (C) In addition to what PDVSA is losing on the importation of gasoline components, the executive estimated it is losing approximately 3 billion USD due to the failure of Cuba to pay for the crude it is importing from Venezuela. The executive stated Venezuela recently signed a new contract with Cuba for the sale of crude to CUPET, the Cuban state oil company. He stated he is not sure about the terms of the new contract and added knowledge of the specific terms of the contract appeared to be limited to very senior BRV officials.

¶19. (C) The executive stated that PDVSA began shipping fuel oil to Argentina in 2004. He was told at that time that PDVSA had to send oil to Argentina because the "Argentines were freezing to death". The executive told his superiors that PDVSA could not send Venezuelan fuel oil to Argentina because its sulfur content was too high for Argentine plants. In order to meet the commitment to supply Argentina with fuel oil, PDVSA was forced to buy fuel oil from Mexico. The executive stated PDVSA lost money on all of the Argentine fuel oil shipments between 2004 and 2006. He was not clear if PDVSA has shipped or will ship fuel oil this year.

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PACIFIC RIM AND CHINA

¶10. (C) The executive also stated that PDVSA was ordered to adopt a Pacific Rim strategy in 2004. He complained that PDVSA could never make money in the Pacific Rim due to the nature of the market. According to the executive, the market is composed of two parts: California/the West Coast of the United States and the Pacific Rim in Asia. The executive stated the Middle Eastern producers, particularly Saudi Arabia had a lock on the Asian market and had long term supply contracts. He said Saudi Arabia would never allow PDVSA to break its hold on the Asian markets and has used PDVSA's attempts to break into the market as opportunities to steal market share on the Eastern Coast market of the United States.

¶11. (C) The executive also claimed PDVSA was no longer shipping oil to China despite public claims to the contrary. He stated the Chinese were buying fuel oil at "a distress of 20". As a result, PDVSA could not supply the Chinese at those terms without a significant loss. PDVSA attempted to negotiate a new deal with the Chinese but was only able to reduce the distress to 18. As a result, it halted shipments to China. (COMMENT: A senior CNPC executive told Petatt that her company was receiving a discount on oil purchases from PDVSA. She did not specify the amount of the discount. It was our understanding that PDVSA is still shipping crude to China but we base this on implications from CNPC officials' comments rather than on hard evidence. END COMMENT).

IRAN

¶12. (C) According to the executive, PDVSA has made two gasoline shipments to Iran. The last shipment occurred in February 2007. In one case, PDVSA was forced to use one of its own coastal tankers to carry the gasoline to Iran. The executive stated the tanker was old and in very poor shape. Since the tanker was not supposed to leave Venezuelan coastal waters, insurance would not have covered it if an accident had occurred on the high seas. The executive estimated that it would take a Panamax class tanker approximately 80 days to make a round trip to Iran. He estimated that it would have taken the PDVSA vessel considerably longer due to its condition. He stated the vessel was supposed to carry additives on its return trip.

WHERE IS PDVSA'S MONEY?

¶13. (C) The executive claimed Carruyo told him in November at a luncheon that PDVSA would be "dead" if the price of WTI reached 37 USD per barrel. He said he personally believes the danger point for PDVSA is a higher WTI price due to PDVSA's declining production and management problems. However, he declined to give a specific price.

¶14. (C) The executive also said PDVSA was instructed to remove its funds from U.S. banks several years ago. He claimed Carruyo approached him and asked him for suggestions on which European banks to use. The executive was surprised by the request but recommended Dresdner Bank AG and Deutsche Bank. Carruyo then asked if he thought Barclays Bank was another candidate and the executive replied no.

¶15. (C) The executive also stated he was grateful to Carruyo because he is a PDVSA pensioner. He stated Carruyo moved the

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9 billion USD PDVSA pension fund to a series of European banks several years ago in order to "hide the money from Chavez".

COMMENT

¶16. (C) Although we have little or no way of confirming the executive's claims, we note that they are in line with many of the things that we have heard from other contacts and reported in the past (Reftel B). We believe that his claim that Chavez is contemplating the suspension of crude exports to the United States should be taken seriously.
FRENCH